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SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

The Swiss Government may be the latest convert to a growing movement for protection of national scheduled air carriers from the competition of foreign airlines. The increased cut-rate operations through Switzerland of non-scheduled foreign carriers, especially those of the US and UK, are causing particular concern. It is probable that the Swiss will in any event soon attempt to reach an understanding with the US and UK for the regulation of such operations to or through Switzerland. (Item No. 1, B)

The efforts of the USSR to alleviate its current shortage of ocean-going merchant shipping tonnage through purchases abroad continue to be largely unsuccessful in spite of Danish press reports concerning the impending conclusion of a shipbuilding contract with the USSR. (Item No. 2, B)

The port of Shanghai is effectively closed to foreign shipping. From 25 June through 12 July no foreign-flag vessel either entered or cleared the port, traffic being confined entirely to small Chinese coastal and Yangtze River craft. The failure of foreign vessels to defy the Nationalist blockade will continue to paralyze Shanghai. (Item No. 3, B)

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SECTION II. CURRENT DEVELOPMENTS

CIVIL AVIATION

1. The Swiss Government may be the latest convert to a growing movement for protection of national scheduled air carriers from the competition of foreign airlines (see TG Weekly Nos. 68-69). Although Switzerland's civil aviation policy has traditionally favored freedom for international air commerce, events of recent months have forced the Swiss to reconsider their position. In an attempt to protect the competitive position of its national air carrier, SWISSAIR, Switzerland is considering limiting traffic rights of US and other foreign airlines operating through Switzerland. Restrictions imposed by other countries on SWISSAIR's operations abroad (see TG Weekly No. 39), moreover, as well as the strong competition of foreign airlines which transit Switzerland on routes paralleling the services operated by SWISSAIR, have strengthened the conviction in Swiss aviation circles that the national airline cannot continue its present operations economically unless the traffic rights of competing foreign carriers are limited.

A change in Swiss air policy is evidenced by: (1) intercompany agreements which SWISSAIR has concluded with the Dutch KLM and Scandinavian SAS airlines, whereby the foreign carriers relinquish traffic rights at Geneva and Zurich on flights to Madrid and Lisbon paralleling SWISSAIR services; (2) efforts to restrict Air India's traffic rights through Geneva en route to London; and (3) Swiss determination to obtain a more equitable share of transatlantic traffic between Switzerland and the US than the present ratio of 2 or 3 weekly SWISSAIR to 14 TWA flights.

The increased cut-rate operations through Switzerland of non-scheduled foreign carriers, especially those of the US and UK, are causing particular concern. It is probable that the Swiss will in any event soon attempt to reach an understanding with the US and UK for the regulation of such operations to or through Switzerland.
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SURFACE TRANSPORTATION

2. The efforts of the USSR to alleviate its current shortage of ocean-going merchant shipping tonnage through purchases abroad continue to be largely unsuccessful in spite of Danish press reports concerning the impending conclusion of a shipbuilding contract with the USSR. The contract, which reportedly calls for the construction in Denmark of a large tanker and five small refrigerator ships under the 1948 trade agreement, probably could not be fulfilled until sometime after 1952.

While Soviet representatives have discussed shipbuilding contracts with virtually all of the major Western European shipyards during the past year, these negotiations will result in Soviet acquisition of only a few tugs and small cargo vessels during the next several years. Although some trade agreements with the USSR provide for negotiation of shipbuilding contracts, most Western European countries have been reluctant, for political reasons, to permit domestic construction of any significant quantity of ocean-going shipping for Soviet account. (Indications of an economic crisis in Western Europe might sharply change this present attitude.) Most European shipyards, moreover, are already committed to capacity output for some time to come and therefore could not in any case affect the current Soviet shipping situation. The continuing Soviet search for ocean-going tonnage, however, provides additional evidence that the USSR has chosen to apply the combined capacity of its shipbuilding industry primarily to commitments other than ocean-going tonnage. (Confidential)

3. The port of Shanghai is effectively closed to foreign shipping. From 25 June through 12 July no foreign-flag vessel either entered or cleared the port, traffic being confined entirely to small Chinese coastal and Yangtze River craft. The failure of foreign vessels to defy the Nationalist blockade will continue to paralyze Shanghai.

The blockade has also had a serious effect upon river traffic between Shanghai and the hinterland. Imposition of the blockade has forced the Communists to divert to coastal traffic most of the larger vessels formerly employed on the Yangtze. (Normally, much of the coastal traffic now carried by Communist-controlled vessels would be carried by foreign-flag vessels.) The resultant shift from large to

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small craft for river traffic has necessarily decreased the volume of Yangtze traffic and increased costs. For instance, coal, normally brought by water in large bulk shipments from up the Yangtze, is now arriving by a combined rail-water haul at the unprecedented cost of US \$27 per ton delivered at Shanghai.

The Communists, meanwhile, are making every effort to increase river shipping by repairing or raising damaged craft in addition to planning for construction of small steamers. Regardless of the success of these efforts, however, such activities are at best only palliatives and Shanghai will continue to be severely hampered until domestic and foreign-flag vessels can resume their normal activities in the port and up the river. This is unlikely to occur in the near future because the Nationalists, realizing the effectiveness of threatened military action against foreign vessels, will probably continue the blockade as long as it can be enforced. (Secret)

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